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DEPARTMENT OF EDUCATION

Annual updates to the Income Contingent Repayment (ICR)

plan formula for 2013--William D. Ford Federal Direct Loan

Program; Catalog of Federal Domestic Assistance (CFDA)

Number: 84.063

AGENCY: Federal Student Aid, Department of Education.

ACTION: Notice.

SUMMARY: The Secretary announces the annual updates to the

ICR plan formula for 2013, as provided in 34 CFR

685.209(a)(8), to give notice to Direct Loan borrowers and

the public regarding how monthly ICR payment amounts will

be calculated for the 2013-2014 year.

DATES: The adjustments to the income percentage factors

for the ICR plan formula contained in this notice are

effective from July 1, 2013, to June 30, 2014, for any

borrower who enters the ICR plan or has his or her monthly

payment amount recalculated under the ICR plan during that

period.

FOR FURTHER INFORMATION CONTACT: Ian Foss, U.S. Department

of Education, 830 First Street, NE., room 114I1,

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email: ian.foss@ed.gov.

    If you use a telecommunications device for the deaf

(TDD) or a text telephone (TTY), call the Federal Relay

Service (FRS), toll free, at 1-800-877-8339.

SUPPLEMENTARY INFORMATION:

Under the William D. Ford Federal Direct Loan (Direct Loan)

Program, borrowers may choose to repay their loans (Direct

Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS

Loans made to graduate or professional students, and Direct

Consolidation Loans) under the ICR plan. The ICR plan

bases the borrower's repayment amount on the borrower's

income, family size, loan amount, and the interest rate

applicable to each of the borrower's loans.

    A Direct Loan borrower who repays his or her loans

under the ICR plan pays the lesser of: (1) the amount that

he or she would pay over 12 years with fixed payments

multiplied by an income percentage factor or (2) 20 percent

of discretionary income.

    Each year, to reflect changes in inflation, we adjust

the income percentage factor used to calculate a borrower's

ICR payment. We use the adjusted income percentage factors

to calculate a borrower's monthly ICR payment amount when

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the borrower initially applies for the ICR plan or when the borrower submits his or her annual income documentation, as required under the ICR plan. This notice contains the adjusted income percentage factors for 2013, examples of how the monthly payment amount in ICR is calculated, and charts showing sample repayment amounts based on the adjusted ICR plan formula. This information is included in the following three attachments:

- Attachment 1--Income Percentage Factors for 2013
- Attachment 2--Examples of the Calculations of Monthly Repayment Amounts
- Attachment 3--Charts Showing Sample Repayment Amounts for Single and Married Borrowers

In Attachment 1, to reflect changes in inflation, we have updated the income percentage factors that were published in a Federal Register on May 22, 2012 (77 FR 30266). Specifically we have revised the table of income percentage factors by changing the dollar amounts of the incomes shown by a percentage equal to the estimated percentage change in the not-seasonally-adjusted Consumer Price Index for all urban consumers from December 2012 to December 2013.

The income percentage factors reflected in Attachment 1 may cause a borrower's payments to be lower than they were in prior years, even if the borrower's income is the same as in the prior year. However, the revised repayment amount more accurately reflects the impact of inflation on the borrower's current ability to repay.

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Program Authority: 20 U.S.C. 1087 et seq.

Dated: May 30, 2013.

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James W. Runcie,
Chief Operating Officer,
Federal Student Aid.

Attachment 1--Income Percentage Factors for 2013

Income Percentage Factors for 2013			
Single		Married/ Head of Household	
Income	% Factor	Income	% Factor
$10,690	55.00%	$10,690	50.52%
$14,708	57.79%	$16,867	56.68%
$18,926	60.57%	$20,100	59.56%
$23,239	66.23%	$26,276	67.79%
$27,359	71.89%	$32,552	75.22%
$32,552	80.33%	$40,888	87.61%
$40,888	88.77%	$51,279	100.00%
$51,280	100.00%	$61,676	100.00%
$61,676	100.00%	$77,269	109.40%
$74,126	111.80%	$103,250	125.00%
$94,916	123.50%	$139,627	140.60%
$134,433	141.20%	$195,275	150.00%
$154,139	150.00%	$319,093	200.00%
$274,549	200.00%	-	-

Attachment 2--Examples of the Calculations of Monthly Repayment Amounts

General notes about the examples in this attachment:

- We have two calculators that borrowers can use to estimate what their payment amount would be under the ICR plan. The first is available on StudentAid.gov/ICR. The second, a "Repayment Estimator" available at StudentLoans.gov, provides more detailed, individualized information about a borrower's loans and repayment plan options, including the ICR plan.

- The interest rates used in the examples are for illustration only. The actual interest rates on an individual borrower's Direct Loans depend on the loan type and when the

postsecondary institution first disbursed the Direct Loan to the borrower.

- The Poverty Guideline amounts used in the examples are from the 2013 U.S. Department of Health and Human Services (HHS) Poverty Guidelines for the 48 contiguous States and the District of Columbia, as published in the Federal Register on January 24, 2013 (78 FR 5182). Different Poverty Guidelines apply to residents of Alaska and Hawaii.

- All of the examples use an income percentage factor corresponding to an adjusted gross income (AGI) in the table in Attachment 1. If your AGI is not listed in the income percentage factors table in Attachment 1, calculate the applicable income percentage by following the instructions under the heading later in this attachment.

- Married borrowers may repay their Direct Loans jointly under the ICR plan. If a married couple elects this option, we add the outstanding balance on the Direct Loans of each borrower and we add together both borrowers' AGIs to determine a joint ICR payment amount. We then prorate the joint payment amount for each borrower based on the proportion of that borrower's debt to the total outstanding balance. We bill each borrower separately.

- For example, if a married couple, John and Sally, has a total outstanding Direct Loan debt of $60,000, of which $40,000 belongs to John and $20,000 to Sally, we would apportion 67 percent of the monthly ICR payment to John and the remaining 33 percent to Sally. To take advantage of a joint ICR payment, married couples need not file taxes jointly; they may file separately and subsequently provide the other spouse's tax information to the borrower's Federal loan servicer.

Calculating the monthly payment amount using a standard amortization and a 12-year repayment period.

The formula to amortize a loan with a standard schedule (in which each payment is the same over the course of the repayment period) is as follows:

$$M = P \times \frac{\frac{I}{12}}{1 - \left(1 + \frac{I}{12}\right)^{-N}}$$

In the formula--

- M is the monthly payment amount;

- P is the outstanding principal balance of the loan at the time the calculation is performed;

- I is the annual interest rate on the loan, expressed as a decimal (for example, for a loan with an interest rate of 6.8 percent, 0.068); and

- N is the total number of months in the repayment period
  (for example, for a loan with a 12-year repayment period,
  144 months).

For example, assume that Billy has a $10,000 Direct
Unsubsidized Loan with an interest rate of 6.8 percent.

Step 1: To solve for M, first simplify the numerator of
the fraction by which we multiply P, the outstanding principal
balance. To do this divide I, the interest rate, as a decimal,
by 12. In this example, Billy's interest rate is 6.8 percent.
As a decimal, 6.8 percent is 0.068.

- 0.068 ÷ 12 = 0.005667

Step 2: Next, simplify the denominator of the fraction by
which we multiply P. To do this divide I, the interest rate, as
a decimal, by 12. Then, add one. Next, raise the sum of the
two figures to the negative power that corresponds to the length
of the repayment period in months. In this example, because we
are amortizing a loan to calculate the monthly payment amount
under the ICR plan, the applicable figure is 12 years, which is
144 months. Finally, subtract one from the result.

- 0.068 ÷ 12 = 0.005667

- 1 + 0.005667 = 1.005667

- 1.005667 ^ -144 = 0.44319544

- 1 − 0.44319554 = 0.55680456

Step 3: Next, resolve the fraction by dividing the result from step one by the result from step two.

- 0.005667 ÷ 0.55680456 = 0.01017772

Step 4: Finally, solve for M, the monthly payment amount, by multiplying the outstanding principal balance of the loan by the result of step 3.

- $10,000 × 0.01017772 = $101.78

The remainder of the examples in this attachment will only show the results of the formula.

Example 1. Brenda is single with no dependents and has $15,000 in Direct Subsidized and Unsubsidized Loans. The interest rate on Brenda's loans is 6.80 percent, and she has an AGI of $27,359.

Step 1: Determine the total monthly payment amount based on what Brenda would pay over 12 years using standard amortization. To do this, use the formula that precedes Example 1. In this example, the monthly payment amount would be $152.67.

Step 2: Multiply the result of Step 1 by the income percentage factor shown in the income percentage factors table (see Attachment 1 to this notice) that corresponds to Brenda's AGI. In this example, an AGI of $27,359 corresponds to an income percentage factor of 71.89 percent.

- 0.7189 × $152.66 = $109.75

Step 3: Determine 20 percent of Brenda's discretionary income and divide by 12 (discretionary income is AGI minus the HHS Poverty Guideline amount for a borrower's family size and State of residence). For Brenda, subtract the Poverty Guideline amount for a family of one from her AGI, multiply the result by 20 percent, and then divide by 12:

- $27,359 - $11,490 = $15,869

- $15,869 × 0.20 = $3,173.80

- $3,173.80 ÷ 12 = $264.48

Step 4: Compare the amount from Step 2 with the amount from Step 3. The lower of the two will be the monthly ICR payment amount. In this example, Brenda will be paying the amount calculated under Step 2 ($109.75).

Example 2. Joseph is married to Susan and has no dependents. Joseph has a Direct Loan balance of $10,000, and Susan has a Direct Loan balance of $15,000. The interest rate on all of the loans is 6.80 percent.

Joseph and Susan have a combined AGI of $77,269 and are repaying their loans jointly under the ICR plan (for general information regarding joint ICR payments for married couples, see the fifth and sixth bullets under the heading "General notes about the examples in this attachment").

Step 1: Add Joseph's and Susan's Direct Loan balances to determine their combined aggregate loan balance:

- $10,000 + $15,000 = $25,000

Step 2: Determine the combined monthly payment amount for Joseph and Susan based on what both borrowers would pay over 12 years using standard amortization. To do this use the formula that precedes Example 1. In this example, the combined monthly payment amount would be $254.44.

Step 3: Multiply the result of Step 2 by the income percentage factor shown in the income percentage factors table (see Attachment 1 to this notice) that corresponds to Joseph and Susan's combined AGI. In this example, the combined AGI of $77,269 corresponds to an income percentage factor of 109.40 percent.

- 1.094 × $254.44 = $278.36

Step 4: Determine 20 percent of Joseph and Susan's combined discretionary income (discretionary income is AGI minus the HHS Poverty Guideline amount for a borrower's family size

and State of residence). To do this subtract the Poverty
Guideline amount for a family of two from the combined AGI,
multiply the result by 20 percent, and divide by 12:

- $77,269 - $15,510 = $61,759

- $61,759 × 0.20 = $12,351.80

- $12,351.80 ÷ 12 = $1,029.32

Step 5: Compare the amount from Step 3 with the amount
from Step 4. The lower of the two will be Joseph and Susan's
joint monthly payment amount. Joseph and Susan will jointly pay
the amount calculated under Step 3 ($278.36).

Step 6: Because Joseph and Susan are jointly repaying
their Direct Loans under the ICR plan, the monthly payment
amount calculated under Step 4 applies to both Joseph and
Susan's loans. To determine the amount for which each borrower
will be responsible, prorate the amount calculated under Step 4
by each spouse's share of the combined Direct Loan debt. Joseph
has a Direct Loan debt of $10,000 and Susan has a Direct Loan
Debt of $15,000. For Joseph, the monthly payment amount will
be:

- $10,000 ÷ ($10,000 + $15,000) = 40 percent

- 0.40 × $278.36 = $111.34

For Susan, the monthly payment amount will be:

- $15,000 ÷ ($10,000 + $15,000) = 60 percent

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- 0.60 × $278.36 = $167.02

Example 3. David is single with no dependents and has $60,000 in Direct Subsidized and Unsubsidized Loans. The interest rate on all of the loans is 6.80 percent, and David's AGI is $32,552.

Step 1: Determine the total monthly payment amount based on what David would pay over 12 years using standard amortization. To do this use the formula that precedes Example 1. In this example, the monthly payment amount would be $610.66.

Step 2: Multiply the result of Step 1 by the income percentage factor shown in the income percentage factors table (see Attachment 1 to this notice) that corresponds to David's AGI. In this example, an AGI of $32,552 corresponds to an income percentage factor of 80.33 percent.

- 0.8033 × $610.66 = $490.54

Step 3: Determine 20 percent of David's discretionary income and divide by 12 (discretionary income is AGI minus the HHS Poverty Guideline amount for a borrower's family size and State of residence). To do this subtract the Poverty Guideline amount for a family of one from David's AGI, multiply the result by 20 percent, then divide by 12:

- $32,552 - $11,490 = $21,062

- $21,062 × 0.20 = $4,212.40

- $4,212.40 ÷ 12 = $351.03

Step 4: Compare the amount from Step 2 with the amount
from Step 3. The lower of the two will be David's monthly
payment amount. In this example, David will be paying the
amount calculated under Step 3 ($351.03).

Interpolation. If an income is not included on the income
percentage factor table, calculate the income percentage factor
through linear interpolation. For example, assume that Joan is
single with an income of $50,000.

Step 1: Find the closest income listed that is less than
Joan's income ($50,000) and the closest income listed that is
greater than Joan's income ($50,000).

Step 2: Subtract the lower amount from the higher amount
(for this discussion we will call the result the "income
interval"):

- $51,280 - $40,888 = $10,392

Step 3: Determine the difference between the two income
percentage factors that correspond to the incomes used in Step 2
(for this discussion, we will call the result the "income
percentage factor interval"):

- 100.00 percent – 88.77 percent = 11.23 percent

Step 4: Subtract from Joan's income the closest income

shown on the chart that is less than Joan's income of $50,000:

- $50,000 - $40,888 = $9,112

Step 5: Divide the result of Step 4 by the income interval

determined in Step 2:

- $9,112 ÷ $10,392 = 0.8768

Step 6: Multiply the result of Step 5 by the income

percentage factor interval:

- 11.23 percent × 0.8768 = 9.846 percent

Step 7: Add the result of Step 6 to the lower of the two

income percentage factors used in Step 3 to calculate the income

percentage factor interval for $50,000 in income:

- 9.846 percent + 88.77 percent = 98.62 percent

(rounded to the nearest hundredth)

The result is the income percentage factor that we will use

to calculate Joan's monthly repayment amount under the ICR plan.

Attachment 3--Charts showing sample repayment amounts for single
and married borrowers

Sample First-Year Monthly Repayment Amounts for a Single Borrower at Various Income and Debt Levels										
Family Size = 1										
Direct Loan Debt										
Income	$10,000	$20,000	$30,000	$40,000	$50,000	$60,000	$70,000	$80,000	$90,000	$100,000
$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$12,500	$17	$17	$17	$17	$17	$17	$17	$17	$17	$17
$15,000	$59	$59	$59	$59	$59	$59	$59	$59	$59	$59

$17,500	$61	$100	$100	$100	$100	$100	$100	$100	$100	$100
$20,000	$63	$126	$142	$142	$142	$142	$142	$142	$142	$142
$22,500	$66	$133	$184	$184	$184	$184	$184	$184	$184	$184
$25,000	$70	$140	$210	$225	$225	$225	$225	$225	$225	$225
$30,000	$78	$155	$233	$309	$309	$309	$309	$309	$309	$309
$35,000	$84	$169	$253	$337	$392	$392	$392	$392	$392	$392
$40,000	$89	$179	$268	$358	$447	$475	$475	$475	$475	$475
$45,000	$95	$190	$285	$379	$474	$559	$559	$559	$559	$559
$50,000	$100	$201	$301	$401	$502	$602	$642	$642	$642	$642
$60,000	$102	$204	$305	$407	$509	$611	$712	$809	$809	$809
$70,000	$110	$220	$329	$439	$549	$659	$769	$878	$975	$975
$80,000	$117	$234	$351	$469	$586	$703	$820	$937	$1,054	$1,142
$90,000	$123	$246	$369	$492	$614	$737	$860	$983	$1,106	$1,229
$100,000	$128	$256	$384	$512	$640	$768	$896	$1,024	$1,152	$1,280
Sample repayment amounts are based on an interest rate of 6.80%										

Sample First-Year Monthly Repayment Amounts for a Married or Head-of-Household Borrower at Various Income and Debt Levels										
	Family Size = 3									
	Direct Loan Debt									
Income	$10,000	$20,000	$30,000	$40,000	$50,000	$60,000	$70,000	$80,000	$90,000	$100,000
$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$12,500	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$15,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$17,500	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$20,000	$8	$8	$8	$8	$8	$8	$8	$8	$8	$8
$22,500	$50	$50	$50	$50	$50	$50	$50	$50	$50	$50
$25,000	$67	$91	$91	$91	$91	$91	$91	$91	$91	$91
$30,000	$73	$147	$175	$175	$175	$175	$175	$175	$175	$175
$35,000	$80	$161	$241	$258	$258	$258	$258	$258	$258	$258
$40,000	$88	$176	$263	$341	$341	$341	$341	$341	$341	$341
$45,000	$94	$188	$282	$377	$425	$425	$425	$425	$425	$425
$50,000	$100	$200	$301	$401	$501	$508	$508	$508	$508	$508
$60,000	$102	$204	$305	$407	$509	$611	$675	$675	$675	$675
$70,000	$107	$214	$321	$428	$534	$641	$748	$841	$841	$841
$80,000	$113	$226	$339	$452	$565	$678	$791	$904	$1,008	$1,008
$90,000	$119	$238	$357	$476	$596	$715	$834	$953	$1,072	$1,175
$100,000	$125	$250	$376	$501	$626	$751	$877	$1,002	$1,127	$1,252
Sample repayment amounts are based on an interest rate of 6.80%										

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